



State of California

## NOTICE OF FUNDING AVAILABILITY (NOFA)

### GOVERNOR'S HOMELESS INITIATIVE DEVELOPMENT FUNDING FOR SUPPORTIVE HOUSING FOR THE CHRONIC HOMELESS WITH SEVERE MENTAL ILLNESS

November 15, 2005

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**A. Introduction.**

On August 31, 2005, Governor Schwarzenegger announced an initiative to address long-term homelessness in California. As part of this initiative, he directed the Department of Housing and Community Development (HCD), the California Housing Finance Agency (CalHFA) and the Department of Mental Health (DMH) to provide an integrated package of funding for the development of permanent supportive housing for persons with severe mental illness who are chronically homeless. These housing development funds are intended to be complemented by Mental Health Services Act (MHSA) funds from counties, as described in Section D. This NOFA announces the funds available under the Governor's Homeless Initiative, as follows:

1. Approximately \$40 million in permanent development financing under HCD's Multifamily Housing Program (MHP) for units set aside for persons with severe mental illness who are chronically homeless. These funds were appropriated by the Housing and Emergency Shelter Trust Fund Act of 2002 (Proposition 46).
2. Additional MHP funds for other units, in projects serving mixed populations that do not use nine percent credits.
3. Construction, bridge and permanent financing from CalHFA, based on CalHFA's loan underwriting criteria for supportive housing projects.
4. Approximately \$2 million in State share Mental Health Services Act (MHSA) funds for rent subsidies.

Applications will be accepted on an "over-the-counter" basis starting on January 16, 2006.

**B. Legal Authority.**

The MHP funds set aside for persons with severe mental illness who are chronically homeless were originally made available for preservation projects pursuant to Health and Safety Code Section 53533(a)(1)(A). In accordance with Health and Safety Code Sections 53533(a)(1)(E) and 50603(f), these funds are now reverting to MHP.

MHP was established by SB 1121, Statutes of 1999 (Alarcón), which created Chapter 6.7, commencing with Section 50675, of the Health and Safety Code. In addition to the requirements of this NOFA, applications shall be subject to two sets of regulations, the MHP-specific Regulations (including Article 6. Supportive Housing Loans) and the Uniform Multifamily Regulations (UMR), both of which are available on the HCD's website at <http://www.hcd.ca.gov/ca/mhp>. Applications submitted under this NOFA are also subject to the applicable statutory requirements (including those of Proposition 46 and SB 1227 of 2002). All section references in this NOFA refer to the MHP regulation text unless otherwise noted. UMR section references refer to the Uniform Multifamily Regulations.

The Mental Health Services Act funds being offered under this NOFA were designated for this use by the 2005-2006 Budget Act (Item 4440-001-3085).

**C. Target Population**

For this NOFA, “Target Population” means households:

1. whose income does not exceed 30% of Area Median Income (or 30% of State Median Income, if this is a greater amount); and
2. that include an adult or older adult member eligible for services under the MHSA who is Chronically Homeless.

Welfare and Institutions Code Section 5813.5 specifies who is eligible for services under the MHSA, by reference to Welfare and Institutions Code Section 5600.3(b) and (c).

“Chronically Homeless” means individuals (including accompanied individuals) who have been continuously “Homeless” for a year or more during the past three years or have experienced four or more episodes of sustained homelessness during the past three years. “Homeless” means the same as that term is defined in Section 7341(b), except that it does not include individuals moving directly from transitional housing who have occupied such housing for more than a year. With advance State approval, project sponsors may elect to abide by more restrictive definitions of these terms, such as those used by HUD.

The MHP set-aside funds described in A.1 above may only be used to cover development costs for permanent housing linked to services where occupancy is restricted to the Target Population (“Target Population Units”). These units are a subset of the units defined as Supportive Housing Units under the MHP regulations.

**D. County Mental Health Department Role**

Typically, projects serving the Target Population will require three types of subsidies: (1) development (capital) subsidies; (2) operating or rental subsidies to cover the difference each year between the cost of operating the housing and tenant-paid rents; and (3) subsidies for mental health and other supportive services. This NOFA offers development subsidies, plus a sharply limited amount of funds for rental subsidies. In some areas, federal funds are available for more substantial rental subsidies and some supportive services.

To be eligible under this NOFA, projects shall have commitments from the local County Mental Health Department for ongoing Mental Health Services Act funding. At a minimum, Counties must commit funding for services, and, where federal funding is inadequate for this purpose, funding for rent or operating subsidies as well. Since the State is making a major capital investment in housing intended to serve the Target Population for many years, County funding commitments shall be formalized through Memorandums of Understanding, or similar agreements, and shall be for the longest legally permissible term. County commitments must also be consistent with the Community Services and Supports plan submitted to (and ultimately approved by) the State.

**E. Eligible Project Sponsors.**

Sponsors and borrowing entities may be organized on a for-profit or not-for-profit basis. Any individual, public agency or private entity capable of entering into a contract is eligible to apply, provided that they or their principals have successfully developed at least one affordable housing project. Sponsors of projects where at least 70 percent of the units consist of Target Population Units or Special Needs Population units are exempt from the requirement for previous development experience under limited conditions. See Section 7303 (d).

Sponsors must also demonstrate a minimum of 24 months experience in the ownership or operation of at least one Supportive Housing or Special Needs Population project with 5 or more units, and provide the commitment of County Mental Health Department funds described in Section D. See Section 7343.

Sponsors must have site control in the name of the Sponsor or an entity controlled by the sponsor as defined in Uniform Multifamily Regulations (UMR) Section 8303.

**F. Eligible Uses of Funds.**

MHP funds will be provided as permanent financing only, and may be used to take out construction loans used to cover normal project development (capital) costs, as detailed in Section 7304. MHP funds may be used to capitalize a project operating reserve account up to the limit required under UMR Section 8308. MHP funds may not be used for the cost of supportive services, although the cost of on-site supportive services coordination may be treated as a project operating cost, payable from operating income. MHP funds must be attributable to the costs of “restricted” units (MHP units and units subject to a long-term regulatory agreement with occupancy and rent restrictions similar to those of MHP) or to the costs of facilities used for childcare, after-school care, and social service provision integrally linked to the restricted units.

CalHFA funds are available as construction, bridge and permanent financing. They may be used to cover normal project development (capital) costs.

**G. Eligible Projects.**

Projects must qualify as rental housing developments, as defined in UMR Section 8301, and meet the requirements of Sections 7302 and 7342. For example, projects must contain five or more dwelling units.

Projects must contain Target Population units, as defined in Section C above, in an amount equal to the greater of five units or 35 percent of the total project units. The income limit for Target Population Units shall not exceed 30% of Area Median Income (or 30% of State median income, if this is a greater amount).

Projects are ineligible if construction has commenced prior to the date funds offered under this NOFA are awarded, or if the project is already fully funded. Projects must meet standards described in UMR Section 8310.

Under this NOFA, projects using nine percent tax credits will be eligible, as well as those using four percent credits. As described in Section J, lower loan limits apply to nine percent projects than four percent projects.

**H. Projects with Extraordinarily High Development Costs.**

The State is concerned about the extremely high cost of a small but significant number of projects funded in the recent past, and the extraordinary level of public subsidy required by these projects.

In light of this concern, and consistent with UMR Section 8311, the State reserves the right to reject an application if total development cost exceeds an amount that cannot be reasonably justified, in comparison to the costs for other similar developments of modest design in the general area. Projects may be required to justify the total development cost if the cost substantially exceeds the State’s historical project costs for similar projects, with an allowance for increased construction costs.

In evaluating projects with high per unit costs, the State will closely scrutinize the justification

that costly design features were necessary to obtain local approvals or neighborhood acceptance. Similarly, the State will be giving close scrutiny to projects with extraordinary site development costs (where they are not fully compensated for by a sharply discounted purchase price), or where the constraints of the site necessitate an especially expensive design. Although the State appreciates that individual developers may experience great difficulty locating more appropriate sites, it has concluded that the interests of the Program are best served by avoiding excessive site- and design-related costs.

**I. Supportive Service and Property Management Requirements.**

Projects shall provide access to an array of services and amenities for tenants whose ability to live independently would be improved by the availability of such services and amenities. They shall be linked to on-site or off-site services that assist the tenant to: retain the housing, improve his or her health, and maximize his or her ability to live and where possible, work in the community.

As part of the application, sponsors must submit a supportive services plan documenting that the project will ensure the availability of services that meet the needs of the population served, along with a line-item budget for the supportive services, itemizing all expenses and indicating the sources, amounts, and status (i.e., proposed or committed) of supportive service funds. This plan is subject to review and approval by the State. Projects with inadequate plans will not receive funding awards.

The primary service provider for the project must demonstrate a minimum of 24 months experience in the provision of services to the targeted population, and a successful history of securing funds for similar activities.

The property manager must have a minimum of 24 months experience in managing a Supportive Housing or Special Needs Population housing project that would qualify as a rental housing development pursuant to UMR Section 8301(o). For proposed projects with fewer than 20 units, the State may approve a property management agent with experience managing projects that do not qualify as rental housing projects, provided the agent has at least 24 months experience managing housing for the specific population targeted by the proposed project.

Applications must include a description of the service needs of each target population that will be served, the expected sources of referrals, and the sponsor's tenant selection criteria and tenant selection process. They must also document that the tenant selection criteria and process are consistent with county service funding priorities.

**J. Maximum MHP Loan Amounts.**

The maximum MHP loan amount is a function of the number of restricted units in a project, their size, location, affordability level, whether the project is receiving nine percent tax credits, and the number and type of units restricted to the Target Population. For projects not receiving nine percent units, the per unit limits are the same as for other MHP NOFAs, except that the base amount for Target Population units is \$60,000 instead of \$30,000. For projects receiving nine percent credits, the per-unit limits are the same for other MHP NOFAs (with a \$30,000 base amount), but the total maximum loan amount will be calculated by applying these limits to Target Population Units only. Tables specific to this NOFA showing the per-unit loan limits and targeted income limits and rents will be available on the HCD's website. The maximum loan per project is \$7,000,000.

**K. Loan Terms and Security.**

MHP Loans will have a 55-year term, and bear simple interest at the rate of 3 percent per year. For the first 30 years, annual payments will be required in the amount of 0.42 percent of the outstanding principal loan balance. The annual payment amount for the next 25 years will be set by the HCD in year 30, and will be the minimum amount necessary to cover the HCD's monitoring costs. Unpaid principal and accrued and deferred interest will be due at the end of the loan term.

Cash flow remaining after payment of all debt service, Operating Expenses, required reserves and allowable deferred Developer Fee and Distributions per UMR Section 8314 shall be applied toward repayment of the MHP loan. If the terms of other public agencies' financing also require payments from remaining cash flow, the HCD may agree to share the remaining cash flow with the public agencies in proportion to the respective loan amounts.

MHP loan documents will include a promissory note, deed of trust and regulatory agreement. The deed of trust and regulatory agreement may be subordinated to bond debt, and amortizing loans from institutional lenders and the federal government provided no balloon payments are due prior to the end of the MHP loan term. MHP loans may not be subordinated to local public agency loans or restrictions attached to these loans, unless the amount of the local loan is at least twice the amount of the MHP loan. See Section 7306(e) and UMR Section 8315.

The MHP loan must be secured by the fee or a leasehold interest in the property acceptable to the HCD. The term of a leasehold interest must be at least 90 years (65 years where the lessor is a public entity) from the date the MHP loan closes, excluding any unexercised lease extensions. If the MHP loan is secured by a leasehold, the owner of the fee and the borrower must sign a recordable lease rider approved by the HCD. See UMR Section 8316 for other leasehold requirements.

CalHFA construction loans will have a 12- to 36-month loan term, with a variable interest rate. Monthly interest-only payments (capitalized) will be required through the term of the construction loan. In addition, permanent loans and bridge loans will be available under CalHFA's Special Needs Financing Program. Tax-exempt bridge loans for projects receiving 4% tax credits will have a one- to three-year term, while permanent loans will have a term of 5 to 30 years. A fully amortizing fixed rate loan will be offered for these loans, with current rates ranging from 1% to 3%, depending upon the number of units that will house tenants who meet the target population, as described in Section C of this NOFA.

CalHFA loan documents for each loan will include, at a minimum, a regulatory agreement, a deed of trust, a promissory note and applicable subordination agreements. Construction loans will require additional loan documents. Subordinate loans or grants are encouraged from local government and third parties to achieve project feasibility. All loans, leases, covenants, restrictions and regulatory agreements must be subordinate to CalHFA financing. The CalHFA loan must be secured by the fee and/or a leasehold interest in the property acceptable to, and approved by, CalHFA.

More detailed information on CalHFA's loan terms, fees, security and other requirements are available at <http://www.calhfa.ca.gov/multifamily/financing/index.htm>

**L. Rent and Occupancy Limits.**

MHP assisted unit rent and tenant incomes will be restricted in accordance with the rent and income limits proposed by the project sponsor in their MHP application, with rents not exceeding 30 percent of the applicable income limit. The maximum possible income and rent limits are those set by the Tax Credit Allocation Committee (TCAC), using its calculation methods: 60 percent of AMI, adjusted by household size, and 30 percent of 60 percent of AMI, adjusted by

bedroom size. These maximum limits are available on the TCAC website at <http://www.treasurer.ca.gov/CTCAC/ctcac.htm>.

Assisted unit rent increases will be limited in accordance with the rules governing tax credit units. Where the project receives Section 8 or other rental assistance subsidies, “rent” is defined as the tenant’s contribution, rather than the contract rent level. Sponsors of this type of project will be required to continue the rental assistance as long as it is available. Projects with rental subsidies must also be feasible with 50 percent of AMI rents for units garnering income-targeting points in the event the rental assistance is terminated, in accordance with Sections 7301(z) and 7312(d).

**M. Developer Fee and Distribution Limitations.**

Developer fees are limited in accordance with the schedule shown in UMR Section 8312 as revised on the HCD website at <http://www.hcd.ca.gov/ca/mhp/>. Distributions to the sponsor out of operating income are also limited in accordance with UMR Section 8314.

**N. Prevailing Wage Requirements.**

Pursuant to Health and Safety Code section 50675.4(c)(2), projects receiving assistance under this NOFA are subject to State prevailing wage law, as set forth in Labor Code section 1720 et seq.

**O. Important Legal Matters.**

The State reserves the right, at its sole discretion, to suspend or amend the provisions of this NOFA. If such an action occurs, the State will notify all interested parties. This NOFA provides a partial summary of the MHP statute and regulations. In the interest of brevity, it does not cover many aspects of those governing documents, some of which may be of critical importance to individual projects. For this reason, applicants are urged to carefully review the regulations before submitting applications.

Article XXXIV of the California Constitution requires advance voter approval of certain publicly funded and regulated low-income housing projects. Projects submitted for funding must either have Article XXXIV approval or be exempt from the need for this approval.

Sponsors must also be very careful to avoid violation of laws barring housing discrimination. The State will review proposed tenant selection criteria for potential violations of these laws. It may condition funding on the elimination of restrictions that it believes to be impermissible, or reject an application where it determines that compliance with applicable law is not feasible.

**P. Reporting Requirements**

1. The Sponsor shall submit along with the application for funding:

- a. A plan for State approval listing projected outcomes and outcome measures for residential stability, increased skills or income, and greater self determination and detailing how data will be collected, analyzed and evaluated. The sponsor must reasonably describe the proposed system for tracking the data and agree to collect and evaluate data on outcomes at least monthly, with a baseline established at move-in.
- b. A plan for State approval describing how the sponsor will track and evaluate pre- and post occupancy service utilization data for tenants who were, or become during occupancy, incarcerated, hospitalized, or housed in a residential treatment facility or homeless facility.

2. At the time the Sponsor submits the annual project audit required by Section 7325, the Sponsor shall also submit a supplemental report including the following information:

- a. The length of occupancy by each supportive housing tenant.
- b. Changes in each supportive housing tenant's employment status during the previous year.
- c. Changes in each supportive housing tenant's source and amount of income during the previous year.
- d. Data on the measurable outcomes that the Sponsor agreed to collect pursuant to the State approved plan mentioned in Section P.1.a directly above and an evaluation of the project based on this data.
- e. Data on the plan for tracking service utilization data that the Sponsor agreed to collect pursuant to the State approved plan mentioned in Section P.1.b directly above and an evaluation of the project based on this data.

## APPLICATION PROCEDURES

### Q. Application Process.

The Application form will be available on the HCD website on or about December 15, 2005. Applications for this funding round will be considered on an **“over-the-counter”** basis until available funds are exhausted. Applications will be accepted from 8:00 A.M on January 16, 2006 until 5:00 P.M. July 14, 2006 or until such time before July 14, 2006 that the State has received what it determines to be a sufficient number of applications to reasonably use all funds currently available.

Applications will be reviewed in the order in which they are received by a team including representatives of the Departments of Housing and Community Development and Mental Health and the California Housing Finance Agency. Applications recommended for approval by staff will be considered by the State's normal review bodies, and are subject to approval by the directors of the three State agencies. The State's date stamp on the last item required to complete the review will be used to determine the order in which applications are presented to the review bodies.

**As more particularly described in Paragraph U below, projects must receive a minimum score of 125 points, as determined by State staff, in order to be considered for a funding award. Additionally, projects must score at least four points in the Development and Ownership Experience of the Project Sponsor point category and at least five points in the Project Readiness point category.**

Notice will be given on HCD's website when a sufficient number of applications have been received to exhaust the funds offered under this NOFA for Target Population Units. Applications will not be accepted after such notice. Any applications received prior to the notice that are deemed eligible for funding will be prioritized based on the State's date and time stamp for the completed application.



**R. Optional Pre-application / Technical Assistance.**

A pre-application is not required. The optional pre-application will provide a means for the State to provide project-specific technical assistance prior to the submittal of a complete application. The State will review and evaluate the pre-applications for sponsor and project eligibility, site control, development experience, supportive services plan, financial data, and establish a preliminary point score for the project. A full and complete application must be submitted before full evaluation and scheduling the project for presentation to the Committee as outlined in the Paragraph Q above.

Any application section or combination of sections may be submitted as a pre-application and utilized for technical assistance purposes.

**S. Application Workshops.**

Application workshops (no registration is required) are scheduled as follows:

Date	Location	Time
January 10, 2006	HCD Headquarters 1800 Third Street, Room 183/185, Sacramento	10:00 am – 1:00 pm
January 11, 2006	Ronald Reagan State Building 300 South Spring Street, Los Angeles	10:00 am – 1:00 pm

The Workshop sessions will focus on application and project requirements.

**T. Application Submittal Procedures.**

Applications must be submitted on forms provided or approved by the State. Application forms must not be modified. A complete original application, plus two copies, must be received by the State.

To receive an application package, please visit HCD's web site on or about December 15, 2005, or contact MHP staff at (916) 323-3178. Applications must be delivered to one of the following addresses:

**U.S. Mail**

Janet Opee  
Department of Housing and Community  
Development  
Division of Community Affairs  
P.O. Box 952054  
Sacramento, CA 94252-2054

**Private Carrier**

Janet Opee  
Department of Housing and Community  
Development  
Division of Community Affairs  
1800 Third Street, Room 390-5  
Sacramento, CA 95814

It is the applicant's responsibility to ensure that its application is clear, complete and accurate. After the application has been received, State staff may request clarifying information.

**U. Application Point Scoring.**

The criteria that will be used to score projects that meet the eligibility criteria and supportive service requirements described in Sections G and I are described in Sections 7320 and 7346, and summarized below. The application for funding provides much more detail on the scoring system.

**Projects must receive a minimum point score of 125, as determined by State staff, in order to be considered for a funding award. Additionally, projects must score at least four points**

**in the Development and Ownership Experience of the Project Sponsor category and at least five points in the Project Readiness category.**

<b>Criterion</b>	<b>Max. Points</b>	<b><u>Comments</u></b>
Extent Project serves the lowest income levels.	35	The income levels referenced in the regulations are posted on the HCD website.
Extent the Project addresses the most serious local housing needs.	15	Local housing need is established on the basis of verification by the locality and, for some mixed projects, by documenting the market vacancy rate.
Development and ownership experience of the Sponsor	20	Minimum point score of four points is required. Experience for the prior 10 years is considered.
Percentage of units for families or Supportive Housing units and "At-risk" Rental Housing Developments.	35	Because projects eligible to apply under this NOFA must have at least 35% supportive housing units, they will automatically receive full points in this scoring category.
Leverage of other funds.	20	Points are awarded on the basis other permanent development funding as a percentage of the MHP funds.
Project readiness	15	Minimum point score of five points is required. The total score is the sum of point awards in six sub-categories measuring readiness.
Adaptive Reuse/Infill/Proximity to amenities	10	Points awarded to adaptive reuse and infill projects, or those near specified amenities.
<b>Total</b>	<b>150</b>	

V. **Disclosure of Application.**

Information provided in this application will become a public record available for review by the public pursuant to the Public Records Act. As such, any materials provided will be disclosable to any person making a public records request. As such, we caution you to use discretion in providing us with information that is not specifically requested, including but not limited to, bank account numbers, personal phone numbers and home addresses. By providing this information to the State, the sponsor is waiving any claim of confidentiality and consents to the disclosure of all submitted material upon request.

Questions related to MHP funding and this NOFA in general should be directed to the MHP program staff at (916) 323 - 3178. Question related to the MHSA funds should be directed to Mike Oprendeck with DMH at (916) 653-3693. Questions regarding construction and bridge financing issues should be directed to Carol Goodman with CalHFA at (916) 322-0385. On behalf of the Department of Housing and Community Development, the California Housing Finance Agency and the Department of Mental Health, thank you for your interest in the Governor's Homeless Initiative.

Sincerely,

Richard L. Friedman  
Acting Deputy Director  
Department of Housing and Community Development